

UNEMPLOYMENT INSURANCE BY INDUSTRIES.

1. In February last the Minister of Labour, following out a recommendation of the Geddes Committee that the possibility of extending unemployment insurance by industries should be further explored, addressed a letter to a large number of representative associations of Employers and Employed, asking their views on this subject.
2. The replies to this letter have been carefully examined, together with certain other proposals and suggestions which have been put forward from various quarters. A large number of letters were sent out to the representative associations indicated above: the number of replies received has been frankly disappointing - about 10%.
3. The Minister thinks it may be useful at this stage to direct attention by means of this Memorandum to certain methods of approaching the problem that might profitably receive consideration. It should be understood that the suggestions indicated in this Memorandum are intended only for the purpose of inviting discussion and do not represent any conclusion reached by the Minister on the points raised.
4. It is desirable at the present time to consider the whole problem on the broadest lines, but it must not be forgotten that there is in the existing law a limited provision enabling an Industry to undertake its own insurance. That provision (Section 18 of 1920 Act) has only so far been made use of by one industry and is for the time being in suspense owing to the financial position of the Unemployment Insurance Fund: indeed as the power of "contracting out" of the general State Unemployment Insurance scheme is restricted to "industries", formidable difficulties of

(1)

demonstration arise, and the necessary measure of common agreement among the diversified interests which exist in almost any industry is difficult to secure.

5. In any development the main objects to be kept in view are:-

- (a) To link up together as closely as possible the financial responsibility for paying benefit with the responsibility of finding employment so as to give the greatest possible incentive for the reduction of unemployment.
- (b) To give a full opportunity to industries (or smaller units) of providing for their own unemployment in the hope that, at any rate in the case of industries with average or less than average risks, it will be possible to secure (without any diminution of reasonable contributions from the State) additional advantages for the worker.

Possible methods of securing these objects are indicated in the paragraphs below.

Method A.

6. It is for consideration whether the responsibility for unemployment and unemployment insurance should not be deflected entirely away from the State and placed upon industry. The steps that necessarily have been taken in the past four years have fostered the view that the responsibility is a State matter. It may be contended that this is not a right view and that the duty of making provision for unemployment should be placed more directly on those engaged in industry. On this basis unemployment insurance would take some such form as follows:-

(2)

As from an appointed date a statutory liability would be placed upon every employer to devise in association with his workpeople an approved scheme of unemployment insurance: by such scheme any workmen in the employment of the employer on or after the appointed date would, if and when the workmen became unemployed, receive from the employer (or from such joint agency as the employer and his workpeople might have set up) unemployment benefit at the prescribed rate for a prescribed period.

It is not necessary at this stage to elaborate the details of this proposal: but provisions would probably be required enabling employers to deduct agreed contributions from the workers' wages: and arrangements would be necessary for workers not in employment at the appointed date to remain under the State Insurance Scheme, at any rate for a time.

Method B.

7. Bearing in mind (1) the extent to which there is movement of labour - particularly unskilled labour - from one industry or establishment to another; (2) the fact that in almost every trade there is a "margin" or fringe of labour exposed to more than the normal risk of unemployment; and (3) the fact that there are very large numbers of small employers whose circumstances are such that they could not readily set up a self-contained private scheme, it may be found that there is much to be said for continuing the State Unemployment Insurance scheme in its entirety, but at the same time making arrangements whereby industries having private schemes of insurance would contribute to the State Insurance fund only an

(3)

appropriate part of the contribution in order to cover the cost of what might be termed a "basic rate" of benefit, the balance of the contribution being retained by the industry for the purpose of providing other benefits suited to its own conditions.

Under such an arrangement all insured workers in whatever industry and however they moved from one industry to another would be secured at least the advantages of the State scheme; but it is clear that only industries with relatively low risks would initiate private schemes.

Method C.

8. Another suggestion, intermediate in character between Method A and Method B, would be along the following lines:-

- (i) There should be every encouragement to employers and workpeople to devise arrangements which, with proper safeguards, would amount in each case to a self-contained scheme for the industry or part of the industry (including, of course, all classes of labour employed), those who are out of employment receiving their Unemployment Benefit from what may be termed a "private scheme".
- (ii) Private schemes for industries with high risks, as well as for industries with low risks should, if possible, be facilitated by means of an adjustment - under adequate safeguards - of the contribution from the State Insurance fund, such contribution being higher in the case of industries with high risks than in the case of industries with low risks.

(4)

- (iii) So far as employers and workpeople are not covered by private schemes they must be dealt with by the State Scheme.
- (iv) In accordance with the general principle of insurance, industries or parts of industries where unemployment is low must contribute to some extent towards the provision to be made under the State Scheme for industries where unemployment is high.
- (v) In order to limit the liability of employers and workpeople and at the same time to secure to the workpeople the payment of unemployment benefit for a reasonable period, those insured under a private scheme might be a charge upon that scheme for some specified period, falling back upon the State scheme when that period has been exhausted.

- (vi) Industries or parts of industries which undertook to devise and maintain private schemes might contribute to the State fund only such amounts as might be ascertained to be the appropriate charge upon that industry or part of the industry in respect of -

- (a) its proportion of the general burden of unemployment in the country, and
- (b) the estimated cost of the fall-back benefits payable from the State Insurance Fund to workpeople in whose cases the payments under the private scheme had come to an end.

- (vii) Industries or parts of industries that did not devise and maintain private schemes would have to pay the full contribution to the State Insurance fund.

(5)

9. The administrative problem is to determine in relation to each of these alternatives the way in which private schemes may be encouraged, whilst at the same time securing :-

- (a) that there is a definite incentive to industries to devise means whereby the volume of unemployment is kept as low as possible;
- (b) that workers moving from one industry to another remain effectively covered by insurance;
- (c) that the cost of unemployment insurance to the Exchequer is not increased beyond that normally involved by the present Unemployment Insurance Acts;
- (d) that the arrangements are sufficiently simple not to lead to excessive expenditure upon administration, whether by the Government Departments concerned or by those responsible for the private schemes.

Ministry of Labour.

November, 1922.